



Ontario Oil Gas & Salt Resources Trust

**2010
Annual
Report**

June 30, 2011

The Honourable Linda Jeffrey
Minister of Natural Resources
90 Wellesley Street West
6th Floor, Whitney Block, Room 6630
Toronto, ON M7A 1W3

Dear Minister Jeffrey,

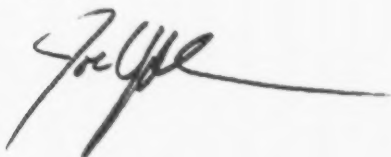
It is my pleasure to submit the 2010 Annual Report of the Ontario Oil, Gas & Salt Resources Corporation. The recently past 2010 fiscal year continued to be a productive year for the Trust. The Trust continued to invest in converting the data that exists in the Oil, Gas & Salt Resources Library to a more modern and accessible digital format. In addition to continuing to operate the Library as a resource centre for the study of Ontario's geological subsurface, our new and expanding portfolio of digital products are assets to attract investment and interest in Ontario's petroleum, natural gas resources, solution mining and hydrocarbon storage industries.

The Oil, Gas and Salt Resources Trust is a non-profit organization, established by the Oil, Gas and Salt Resources Act, which funds information management relating to the oil, gas and salt resources of Ontario. It also funds research, surveys, and laboratory facilities and operations relating to hydrocarbon exploration, drilling, production, the storage of hydrocarbons in geological formations, and the disposal of oil field fluids in geological formations.

The Trust website continues to evolve as a tremendous resource for cost-effectively distributing data and information about Ontario, essentially creating a virtual Library for users to access when and where they want. Furthermore, the staff ensure requests from our Ontario constituents as well as those from outside of Ontario are promptly fulfilled hoping to do our part to ensure further investment in Ontario's Oil, Gas and Salt Resources.

As with every year technology changes ensure that in the next fiscal we will see the development of more digital data products, enhanced outreach to industry and private well owners and a continuously broader geographical coverage of Ontario.

Sincerely,

A handwritten signature in black ink, appearing to read 'Joe Van Overberghe', with a long horizontal stroke extending to the right.

Joe Van Overberghe
Managing Director
Ontario Oil, Gas & Salt Resources Corporation

Trust Mission and Objectives

The Oil, Gas and Salt Resources Trust is a non-profit organization, established by the Oil, Gas and Salt Resources Act, which funds information management relating to oil, gas and salt resources; and also funds research, surveys, and laboratory facilities and operations relating to oil or gas exploration, drilling or production, the storage of oil, gas and other hydrocarbons in geological formations, and the disposal of oil field fluid in geological formations.

The Trust is funded by, and provides services to, companies and individuals involved in oil and gas exploration, drilling or production; the storage of hydrocarbons in geological formations, the disposal of oil field fluid in geological formations, and solution mining. Services are also available to the general public, universities and other clients on a cost recovery basis.

The Trust manages the Oil, Gas and Salt Resources Library as a resource centre for the study of the subsurface geology and oil, gas, salt, and subsurface storage and fluid disposal resources of all the potential oil, gas and salt-bearing rocks of Ontario.

The Oil, Gas and Salt Resources Trust specializes in the collection, generation, and dissemination of information and knowledge about the subsurface geology and oil, gas, salt solution mining and underground hydrocarbon storage resources of Ontario. It provides its clients in these resource industries with the data they need to conduct their business in the most orderly, safe and efficient way possible, and provides public access to this data at reasonable cost.

The Trust's continuing mandate is to maintain and improve access to existing data, and to develop programs to improve client access to information and to generate new revenue.

ORGANIZATION SUMMARY

The Oil, Gas and Salt Resources Trust was formed by the Ontario Ministry of Natural Resources, pursuant to amendments made to the Oil, Gas and Salt Resources Act in 1997. A Trust Agreement, dated February 16, 1998, was signed with the original Trustee, the Ontario Oil Gas & Salt Resources Corporation and responsibilities for operation of the Library were transferred to the Trustee. The Ontario Petroleum Institute (OPI) is the sole shareholder in the Ontario Oil Gas & Salt Resources Corporation. The Executive of OPI constitutes the Executive of the Trust. The Executive Director of OPI also acts as the Managing Director of the Trust.

Requirements for a Trust Advisory Committee (TAC) exist within the Act and the Trust Agreement. The TAC is a person member committee comprised of four representatives from the oil and natural gas exploration and production industry, and one representative from each of the natural gas storage, hydrocarbon cavern storage, and salt solution mining industry. Committee members are appointed by the Trustee to a two-year term. The TAC meets on a quarterly basis to advise the Trustee on the setting of operating budgets and directing policy with respect to expenditures.

The OGSR Library can trace its origin to the late 1800's, when the Geological Survey of Canada solicited voluntary submissions of drill cuttings and core from oil and gas wells drilled in Ontario and other parts of the country. This informal collection evolved into the establishment of a core and drill cuttings sample processing, storage and study facility in Ottawa. In 1950, a similar facility was established in Calgary and all Western Canada drill cuttings samples were transferred to Calgary. In 1971, the Ontario cores and drill cuttings samples were shipped to the new Petroleum Resource Laboratory in London, Ontario. The lab was owned and operated by the Ontario Ministry of Natural Resources. In 1987, the collection was moved to its current location in a new 600m² building located near Highway 401. In 2007 the facility underwent an expansion of approximately 200m², providing capacity for an estimated 30 years of continued collection of drill core and samples.

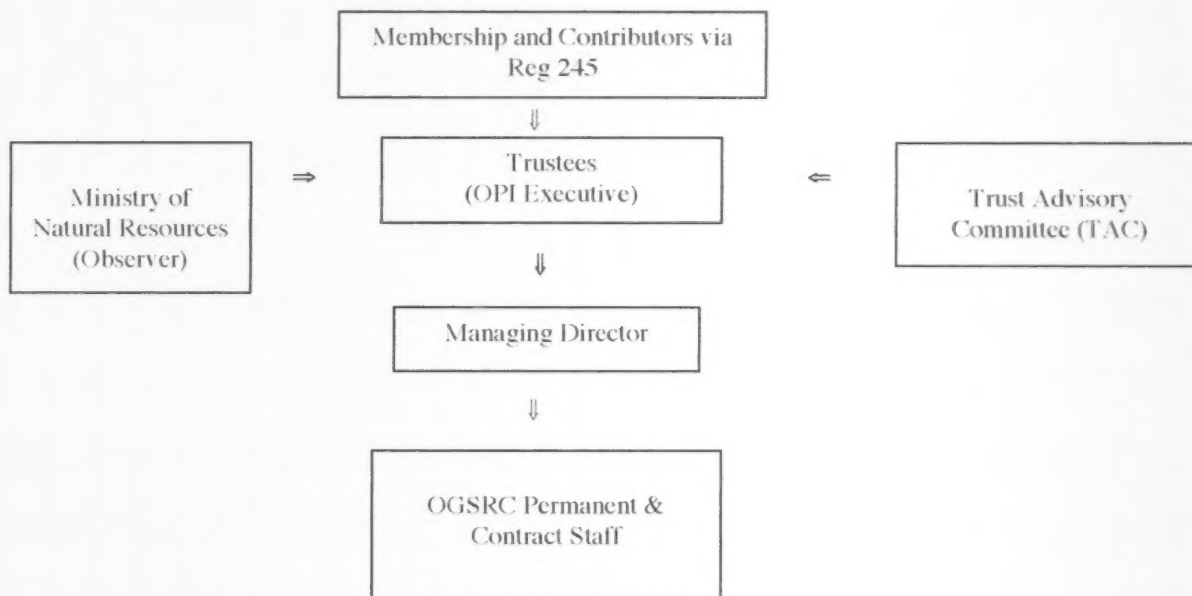
The Library is currently staffed with a full time Administrator and an Operations Technician. In addition, contract and part time employees are busy verifying and updating Ontario's digital data records.

Oil, Gas & Salt Resources Corporation

The OGSRC is a body led by a partnership representative of all stakeholders in a defined area of economic activity whose mandate includes:

- Oil exploration and production
- Natural gas exploration and production
- Salt solution mining and production
- Natural gas storage
- Cavern storage of hydrocarbon products

The structure of the OGSRC:



Trust Advisory Committee

1. **PRODUCER: Duncan Hamilton, Greentree Gas and Oil:**
Greentree Gas & Oil Ltd. is an Ontario-based junior oil and gas exploration and production company. The Company focuses on its core areas in southwestern Ontario, where it continues to explore and develop long-life reserves of natural gas and light oil.
2. **LAND: Dale Norman, Elexco Ltd**
The Elexco Group of Companies consists of several organizations working together to provide unique Land Consulting and Land Administrative needs to our extensive clientele in North America. A large, well-qualified staff has been in place since 1976, and provides a seamless transition from one project phase to another, offering a continuity appreciated by both client and landowner.
3. **SALT: Bill Cocchio, Windsor Salt**
The Company is engaged in the recovery, processing and sale of salt, and provides over 200 evaporated and rock salt products under its well-known Windsor and Safe-T-Salt brand names. Products made from evaporated salt (salt recovered from brine) are used in household and food products, as well as for agricultural, water softening and industrial purposes.
4. **GEOLOGICAL CONSULTING: Neil Hoey**
Neil Hoey is an industry consultant working with independent oil and gas exploration and production companies in Ontario
5. **STORAGE: Peter Johnston, Union Gas**
Union Gas also provides natural gas storage and transportation services for other utilities and energy market participants in Ontario, Quebec and the United States. Union Gas' storage and transmission system forms an important link in the movement of natural gas from Western Canadian and U.S. supply basins to central Canadian and Northeast U.S. markets.
6. **PRODUCER: Ron Stinson, Talisman Energy Inc.**
Talisman Energy Inc. is an independent upstream oil and gas company headquartered in Calgary, Alberta, Canada. Talisman has operations in Canada and its subsidiaries operate in the UK, Norway, Southeast Asia, North Africa and the United States. Talisman's subsidiaries are also active in a number of other international areas.
7. **CAVERN STORAGE: Neil MacDougall, Lanxess Inc.**
LANXESS is a specialty chemicals group with world-leading market positions at the core of the chemical industry. Lanxess offers customers the latest know-how, reliable service and a big selection of premium products – in the areas of high-tech plastics, rubber and chemicals.
8. **INDUSTRY: Joe Van Overberghe, Ontario Petroleum Institute Inc. (O.P.I.)**
O.P.I. is a non-profit industry association which represents explorationists, producers, contractors, geologists, petroleum engineers and other professionals, individuals or companies directly related to the oil and gas, hydrocarbon storage and solution mining industries of Ontario. Fundamental objectives of the Institute are: to encourage responsible exploration and development of the oil, gas, hydrocarbon storage and solution-mining industries in Ontario; to maintain close liaison with government agencies which regulate the industry; to disseminate information relevant to member needs; to promote the legislative goals of the membership and to inform and educate the general public on the significance of the industry to the province of Ontario.
9. **GOVERNMENT: Terry Carter, Ministry of Natural Resources**
The Petroleum Resources Centre (PRC) of the Ministry of Natural Resources provides governance over Ontario's oil, gas, salt and underground storage industries including policy development and field delivery of licensing, inspection, enforcement and Crown land tenure programs. The PRC collects and manages well and production data, subsurface geological information and houses a drill sample and core library, which is operated in partnership with Ontario's oil, gas, salt and underground storage industries.

CORPORATION DATA

Resources

The Oil, Gas and Salt Resources Library houses resources and data available for study including drill cuttings samples from over 13,100 wells; cores from over 1,027 wells; file information on approximately 27,000 wells, including geophysical logs, formations tops, well history and construction, oil/gas/water zones, initial completion results, core analyses, oil/gas/water analyses; an extensive collection of reference books, periodicals and reprints on the subsurface geology and oil, gas, salt and subsurface storage resources of Ontario.

Digitizing of geophysical well logs: stands at 4,061 new digital logs in LAS format, and 6,881 scanned images of logs. All 650 Sonic logs are now scanned and digitized.

OPDS data entry project: complete with a total count of 27,000 wells on record, 2nd phase "Data Integrity" project, further enhanced data accuracy.

A completely new project is the Oil & Gas Production Module: all 65,000 annual production reports scanned, Operator name and year registration complete between 1897 and 2010. 100% of wells registered with a licence number between 1992 and 2010. Latest project under contract from MNR accomplished complete well production history between 1992 and 2007.

Services

The Library is visited by industry participants to view data files relating to wells drilled in Ontario (i.e., well cards, production information, plugging information, etc); to view core and drill cutting samples for wells drilled in Ontario; to view maps of well locations; and to view open file reports on the industry. Clients can review materials in the Library, and if relevant, take copies of the data files for studying outside of the Library. An ArcGIS workstation is available for client use and is equipped with MNR's proprietary PetroGIS software for performing spatial queries on the digital petroleum well database and with Surfer 8 © digital gridding and contouring software for subsurface geological mapping. The Library also provides a drill cutting sample preparation service, and a core cutting service.

The Library also operates a dynamic website (www.ogsrlibrary.com) which contains summaries of reference materials in the Library, and a growing list of regularly updated reports (i.e., drilling activity reports, new well licences). Member access includes individual well history complete with geology, analysis, production, plugging and stimulation.

Basic digital petroleum well data for all counties is posted to the Library website for complimentary downloading (basic well location and historical data). A set of enhanced and value-added subsurface data for all counties is available for purchase. The website is continually updated with verified county data and digital data products. Library staff utilizes this digital data for plotting sophisticated maps which combine different data types including well locations, bedrock geology, bedrock topography, oil and gas pools, digital elevation model for Ontario, etc and incorporating results from data queries and filters.

MARKETING STRATEGY

The Trust focuses on four geographical markets; Ontario, Alberta, and the mid-western and northeastern USA. The target client is usually the operator of oil, gas, solution mining, natural gas storage, oil field fluid disposal or petroleum product storage wells in the province of Ontario, or a consultant providing services to these operators. Outside of Ontario, the target clients are resource exploration companies considering new locations for investment or activity. Principal focus will continue to be providing information services to the oil, gas, salt, and hydrocarbon storage resources industries that include the operators, service providers, consultants, government and academics.

The OGSRL will also look to support Ontario's environmental issues resolutions. It is believed that with the many changes in water protection legislation, in particular the Clean Water Act; there is a market within this industry for the knowledge and products available at the OGSRL. Environmental geoscientists in the Association of Professional Geoscientists Ontario are also potential clients for the Library's data services. Further, the OGSRL will be able to support initiatives under the Brownfield Legislation regarding location history for all projects.

Other marketing opportunities include the OPI "Ontario Oil and Gas" magazine that was released in mid 2008 at the Calgary World Oil Expo. The magazine had a distribution of 12,500 copies beyond the core Ontario market. Its articles are still being used in 2011.

Further opportunities are in those industries beyond oil and gas. These include geothermal opportunities and ground water that is being explored as this report is being written.

The Oil Gas Salt Resources Corporation will be attending the following regional conferences and events in Fiscal 2011 along with the Ontario Petroleum Institute.

- The OPI Conference: Location London, ON
- AAPG - Eastern Section: Location: Washington, DC
- Ontario Ground Water Association: Location Kingston, ON
- CSUG

The Oil Gas Salt Resources Corporation attended the following regional conferences and events in Fiscal 2010 along with the Ontario Petroleum Institute (OPI).

- The OPI Conference: Location Niagara Falls, ON
- AAPG - Eastern Section: Location: Kalamazoo, MI
- Ontario Ground Water Association: Location Niagara Falls, ON

Pricing Strategy

The Trust has three main sources of revenue; well licence fees based on oil/gas production and/or well type, drill sample processing fees, and client service and publication fees. Well licence fees are collected by the MNR under the requirements of the Oil, Gas and Salt Resources Act and O.Reg. 245/97 and are due by February 15 of each year. Sample processing fees are required to be submitted to the Library by well operators when drill samples are delivered to the Library. Well licence fees are mandated by O.Reg. 245/97 and sample processing fees are mandated by the Provincial Operating Standards. Rates are set by the MNR in consultation with industry and the Trust Advisory Committee. These fees provide the stable funding needed to ensure the long-term success of the Trust.

Fees identified in the Oil, Gas and Salt Resources Act may be reviewed by the Trust Advisory Committee who can make recommendations to MNR for any changes. Client service fees are set by the Trust Advisory Committee and are reviewed on an annual basis.

User service fees are priced to promote access to information and knowledge by a wide cross-section of clients and to increase the overall client base. Daily and weekly fees are priced higher to encourage regular clients to purchase Annual Memberships. Fees for students and academics are offered at very low rates to encourage the use of the Library's resources and provide future membership value. Publications and programs initiated by the Trust will be priced to recover all printing, distribution, and preparation costs.

As more and more digital products come on-line, pricing recommendations will be based on a cost-plus-sustainability approach as well as competitive pricing reviews.

Promotion Strategy

The Library will continue to focus its efforts on collecting and preparing information for publication in 2011. The Library will promote its services in two key areas: 1) building general awareness of the Library's resources and mandate among current users and lapsed users within the target groups; and 2) targeting all potential user groups, including those in Source Water Protection and Brownfield about the Library's digital publishing progress and the interim steps the Library is taking to organize and publish its data. The objective is to ensure all potential users view the Library as the best one-stop vendor for all Ontario data and information

Distribution Strategy

Clients presently and in the past obtained data and information by personal visits to the Oil, Gas and Salt Resources Library, and by telephone inquiry. Telephone inquiries are usually followed up by mailing or faxing of file information, maps or publications and invoicing for service fees.

As more and more information is available in digital form, the increased Internet use, as a distribution method, becomes more important. Digital files are mailed on CD, e-mailed over the Internet, or more commonly downloaded from the Library's website. Content on the Library website continues to grow, and will remain a priority for publishing new information, for marketing new information, and for presenting existing information in more accessible formats. Digital requests now exceed walk in requests for data.

Strategic Alliances

The Trust will continue to have close working and business relationships with the Petroleum Operations Section of the Ontario Ministry of Natural Resources, and the Ontario Petroleum Institute. OPI will continue to provide strategic and marketing advice and avenues. The Library participates in all OPI functions and continues to develop a strong partnership with the Ministry of Northern Development and Mines, through its contacts at the Ontario Geological Survey. The Trust will also take advantage of strategic alliances with Geological Survey of Canada as we have in the past with projects like the Targeted Geosciences Initiative of 2004-06

FINANCIAL OBJECTIVES

The Trust's financial objective continues to be to build a reserve fund equal to one year of expenditures. After that time fees and services will be reviewed and revised. This reserve will serve as a contingency against fluctuations in well licence fee revenue caused by hydrocarbon production declines or unforeseen expenditures.

The trust has achieved this goal and has these reserves as contingencies and to ensure the fulfillment of our objectives

Projected completion of the well data digitization program will reduce costs, but this will be offset by a long-term trend of decreasing revenue from sample processing fees and well licence fees due to decreasing oil and gas production and the drilling of fewer wells, and expected increases in rental payments to the Ontario Realty Corporation.

User fees and data/publication sales historically contributed only 10% of the operating revenue of the Trust. The Trust initiated a strategy to mitigate declining well-related fees by augmenting with increased user-related fees of 20% of revenues. This strategic target was and continues to be exceeded.

The fiscal year of the Trust begins January 1st of each year and ends on December 31st. All licence fees are to be paid by February 15th, representing the previous year's production. The Trust extends credit to Members only; all others pay with cash, cheque, MasterCard or VISA.

ONGOING INITIATIVES

Well logging and digitization

This project was completed in 2009. The project results are hoped to be used in the marketing of the Ontario industry in upcoming magazines.

Seismic Shot Lines

No progress was made on this proposed initiative in 2010 due to other commitments. When resources permit staff will be working on a plan to capture historical shot lines to prepare a map of seismic shot lines for the province. However we are now hopeful that we will be able to recover some historic lines over the next fiscal year

Log Digitizing

TGI research provided budget for hardware/software to scan and digitize hard-copy geophysical well logs, plus some funding for personnel to acquire select project logs. Staff have been trained on digital acquisition, and can digitize logs upon client request. A fee is charged for this work. There is a continuous review of current digital data pricing. There are on-going request to ensure that digital log submissions are part of the next Operating Standards update. To date there are in excess of 3600 geophysical well logs have been scanned and catalogued as TIFF files and 3000 well logs have been digitized as LAS files.

Digital Data Publishing

The Trust will continue to work in partnership with the MNR to build, maintain and market a digital database of geological and engineering information on wells drilled in Ontario. The Trust will be the data vendor for information on Ontario oil, gas, salt and storage resources, based on the Data Resale Agreement with MNR.

i) Current Activity

- MNR has an operational database of all licenced wells in Ontario within the Ontario Petroleum Data System (OPDS). All new wells and well information, with the exception of production information, are entered into OPDS. The Library, in conjunction with MNR, has populated the database with old well information and files.
- On a county-by-county basis, the Library has been harmonizing the data between MNR's source well files and the Library's public access files, and at the same time verifying data in OPDS. Once a county has been reviewed, staff have been checking and realigning well location data.
- Sale of value-added subsurface data from OPDS by the Library began in 2003 and I continued through 2010. Data consist of geological formation tops, logging records, and oil/gas/water interval records.
- A data sharing agreement has been signed between the MNR Information Access Section and the Ontario Oil Gas and Salt Resources Corporation. The agreement allows Corporate Members of the Oil, Gas and Salt Resources Library to use MNR Digital Base Maps.

ii) Future Activity

- Well production history is one of the most sought after items by our users. It is the Libraries goal to move forward on this project to produce a digital dataset on well production history. This project will be intensive, as it will bring to life many thousands of forms in a digital format.
- Data verification and updating of well location and subsurface data was on-going in 2010. This project will continue forward in 2010. Quality assurance testing of the edited data set will continue to identify and correct remaining errors.
- New GIS layers are being added to the NRVIS digital base maps by MNR. These layers are spacing orders, designated gas storage areas, unit areas, and historical oil fields.
- Resale data agreements need to be negotiated with local, national or international vendors to market Ontario data
- Further cooperative projects are proposed with the Ontario Geological Survey, which would improve the quality of subsurface geological data in the database.
- Recently Completed:
 - Log digitizing: completion of the second contract from OGS yielded 2,100 new digital logs in LAS format and 3,500 scanned images of logs. 600 Sonic logs remain to be digitized as a potential project.
 - Main data entry project: complete with a total count of 27,000 wells on record, stand by for 2nd phase "Data Integrity"

iii) Digital Data Distribution Summary

- Free on the Library website (well locations, history, status)
- Research by Library staff on a fee basis, with "well card" printouts and well location mapping
- Ontario Digital Base Maps, available to Corporate Members
- Paid data sets (geological formation tops, logging records, and oil/gas/water intervals, monthly production data)
- Geological GIS capabilities, for subsurface mapping
- Client access in the Library (all non-confidential data)
- Digital log capabilities available to clients upon request

NEW INITIATIVES

As directed by the Trustees, it is important to continue the relationship with both the Canadian and Ontario geological surveys and be aware of any such projects such as the existing TGI project to further enhance the availability and type of data available from the OGSRL. Discussions are underway with the Ontario Geological Survey for participation in updating of the Paleozoic bedrock geology map of southern Ontario. Significant improvements to the map rely heavily on data available only from petroleum well records.

The Trust needs to identify and develop new revenue-generating products to offset the expected continued decline in revenue from petroleum well and drilling activity. Discussions have continued with MNR to identify options.

ONTARIO 1CALL

In April of 2011 Private Member's Bill 180, An Act respecting Ontario One Call Ltd, introduced by MPP Robert Bailey. While it did not get signed into law it had all party support. We anticipate that this Bill may be introduced in another form in an upcoming legislative sitting. Presently it is a voluntary system for utility location in Ontario.

Any amended Bill, if passed, would more than likely establish Ontario One Call Ltd (On1Call a corporation which is currently operating in Ontario) as a not-for-profit call centre, to serve as a single point-of-contact for all underground utility location services in Ontario. All owners or operators of underground infrastructure would be required to join the not-for-profit Ontario One Call Network, including:

- Hydro One Inc.
- Ontario Power Generation Inc.
- Every gas distributor and every gas transmitter
- Every operator of an electrical distribution system
- Every pipeline owner or operator
- Every municipality in Ontario
- **Every person or entity registered under the *Oil, Gas, and Salt Resources Act***

As a result of this anticipated change in legislation, the OGSRL will be looking at developing a layer for its data system that will incorporate infrastructure as required by such a Bill. OGSRL looks forward to partnering with the MNR to develop this layer.

OGSRL staff will also be meeting with Ontario 1Call to ensure a seamless layering of data into their system.

INDUSTRY SUMMARY

Ontario Hydrocarbon and Solution Mining Industry 2007 Economic Survey

Ontario's petroleum and salt solution mining industry includes the following activities:

- Oil exploration and production
- Natural gas exploration and production
- Natural gas underground storage
- Salt solution mining
- Hydrocarbon underground storage associated with the petrochemical refining industry

These activities provide Ontario consumers with the following:

- Storage of natural gas imported to Ontario from sources in Saskatchewan, Alberta and British Columbia by pipeline and held in reserve to supplement times of peak demand. This becomes very important with the switch from coal to natural gas generation of electricity.
- Table salt and industrial salt – Ontario is a net exporter of salt produced from salt solution mining
- Underground storage caverns of product necessary for Ontario's petrochemical refining industry
- A small percentage of Ontario's demand for oil and related products
- A small percentage of Ontario's demand for natural gas

The economic value to Ontario of these activities includes:

- 700 plus people directly employed in exploration, production, storage and salt solution mining in Ontario
- 100 people in Alberta, Michigan, New York and Ohio depend directly on Ontario's petroleum and salt solution mining industry
- Personal total taxable income = \$55 million
- Services and goods purchased by the industry = \$127 million
- Capital expenditures (in 2007) = \$50 million
- Lease payments and royalties paid to land owners = \$4 million
- Lease/Land payments to the Crown = \$9 million per year
- Municipal Taxes = >\$4 million per year
- Industry assets = \$650 million
- TOTAL economic value (in 2007) = \$900 million

The value of production and storage in Ontario in 2007:

- 107,687 m3 of oil produced = \$52.3 million
- 292 million m3 of natural gas = \$82.3 million
- 6,900 million m3 of natural gas storage capacity = \$2 billion in value
- 3.5 million m3 of hydrocarbon storage capacity = ± \$2 billion in value
- Solution Salt Value – no data available

Overall annual value of this industry to Ontario is about \$5 billion.

Oil and Gas Exploration and Development Activity in Ontario in 2010

L. Fortner¹ and T. R. Carter²

¹Sedimentary Geologist, Petroleum Operations Section, Ministry of Natural Resources, London, Ontario

²Chief Geologist, Petroleum Operations Section, Ministry of Natural Resources, London, Ontario

INTRODUCTION

Drilling activity in Ontario in 2010 decreased compared to 2009, with production levels also falling. The price for light sweet crude oil began 2010 around \$80 per barrel and averaged about \$70 for the year. This was significantly higher than the average for 2009. The price of natural gas in North America ranged between \$6 and \$3 per MMBTU in 2010, finishing the year over \$4. Greatly reduced industrial usage of natural gas during and following the recent economic recession has resulted in less total gas consumption in North America since mid-2008. In addition to this reduced consumption, new onshore supplies in North America from recently exploited shale gas continue to suppress natural gas prices.

Production figures compiled from annual production reports submitted to the Petroleum Resources Centre indicate that annual oil production declined 7.5% to 83,779 m³ in 2010 with an estimated value of \$42.6 million, compared to 90,535 m³ with an estimated value of \$38.8 million the previous year. Natural gas production declined 2% to 233,987 10³ m³ compared to 238,715 10³ m³ in 2009.

The decline in oil production is directly related to reduced levels of drilling activity since 2004, such that there is insufficient new production to replace that from existing wells. The cash value of production decreased substantially from 2008 to 2009, but increased again in 2010 with oil prices stabilizing at a level consistently above the 2009 low.

EXPLORATION ACTIVITY

A total of 15 licences to drill and operate new wells were issued by the Ministry of Natural Resources in 2010, compared to 46 in 2009. An additional 33 licences were issued for plugging of existing wells. Nine existing wells were licenced for oil production and one for injection in historical oil fields.

Drilling of 23 new wells was reported in 2010, compared to 29 wells in 2009. These consisted of 6 exploratory wells, 9 development wells and 8 service wells. The 8 service wells consisted of 2 natural gas storage wells, 4 stratigraphic tests, 1 brine disposal well and 1 observation well. One of the natural gas storage wells was drilled horizontally, as was one of the stratigraphic tests. No other horizontal wells were drilled during the year.

Successful development drilling in 2010 resulted in 1 well reported to be a potential oil producer, 1 suspended natural gas well, 1 capped well with gas show and 6 active private gas wells. Successful development drilling in 2009 was materially better, with 5 wells reported to be active oil producers, 2 as active gas producers, 1 as a potential gas well, 1 as a potential oil well, 1 as an active private gas well and 1 as a suspended private gas well. The 3 commercial development wells drilled in 2010 were located in Elgin and Welland counties. No wells were drilled offshore Lake Erie in 2010.

Exploratory drilling in 2010 resulted in 1 well reported as an active gas producer, 1 active oil producer, 2 potential oil wells and 1 potential gas well (Table 1; Figure 1), and 1 dry hole. In

comparison, exploration results in 2009 were more gas-weighted, with 2 wells reported as active gas producers, 1 suspended gas well, 2 potential gas wells, and 1 plugged and abandoned well with oil show. The number of successful exploration wells drilled in Ontario was equal to 2009 at 5. Three wells were drilled by Ontario General Energy in Lambton County, one by Clearbeach in Lambton County, and one by NRG in Oxford County.

Cambrian Play

One exploratory well was drilled in Oxford County to test Cambrian targets for oil and gas in 2010. It was reported as a potential oil producer. There had been 1 potentially successful Cambrian exploratory test in 2009 reported as suspended with gas show.

One development well was drilled into the Cambrian in Elgin County and reported as a potential producer with oil show. There had been no development wells drilled to Cambrian targets in 2009.

Ordovician Play

As in 2009, no exploration wells tested Ordovician targets in 2010. There were also no development wells drilled in 2010. There had been 1 development well reported as a potential Ordovician oil producer in 2009.

Silurian Sandstone Play

No exploration wells tested Silurian sandstone targets in 2010. In 2009, 2 exploration wells were reported to be active gas producers from Silurian sandstones in Norfolk County.

Eight development wells were drilled for Silurian sandstones in 2010, compared to 6 in 2009. Six were private gas wells, all currently active; and 2 were commercial wells: 1 reported as suspended in Welland County and the other as a capped well with gas show in Elgin County.

Of the development wells targeting Silurian sandstones in 2009, there were 2 commercial wells reported as active gas producers and 1 commercial well reported as a potential gas well. There was also 1 active private gas well and 1 suspended private gas well drilled.

Silurian Carbonate Play

Five exploratory wells were drilled to test Silurian Guelph reef and/or Salina Group targets in 2010. These resulted in 1 active oil well, 1 active natural gas well, 1 potential producer with oil show, 1 potential producer with gas show, and 1 dry hole, all in Lambton County.

In 2009, 1 exploratory well was reported as a potential gas producer and 1 well was abandoned with an oil show in Lambton County. A third exploration well was reported as a potential gas producer in Elgin County.

As in 2009, there were no development wells drilled for Silurian Guelph-Salina targets in 2010.

Devonian Play

No exploration or development wells tested Devonian targets in 2010. There were 5 Devonian development wells all reported as active oil producers in 2009, but no exploration wells drilled in 2009.

EXPLORATION TRENDS

Recent exploration has been focussed on the proven Silurian sandstone and carbonate reservoirs. High natural gas prices greatly enhance the economics of all gas plays in Ontario. Unfortunately, North American natural gas prices dropped dramatically during 2009 and remained relatively low throughout 2010. Exploration activity focussing on oil has not increased in spite of consistently robust oil prices in 2010.

Activity in Ontario has been reduced to a minimum by the constraints of commodity prices. Consistently low natural gas prices have clearly restricted exploration and development operations in the province. Ironically, sustained higher oil prices also negatively impact activity in Ontario by increasing the attractiveness of larger and more expensive projects in other provinces as well as internationally. Recommendations for future exploration have not changed in this report for several years and will remain unchanged until exploration activity increases and new plays and fairways are tested by industry.

Exploration in the Ordovician play has declined considerably in the past several years with a focus on extension or development drilling of known trends. Essex County and southern Kent County are still the most attractive onshore locations, but exploration will need to expand to the north and east if oil production is to be maintained. There is considerable remaining untested potential for natural gas in this play beneath the eastern basin of Lake Erie and onshore east and north from Kent County to the Niagara Escarpment. A 2005 reassessment of potential in this play by the Ministry of Natural Resources indicates potential remaining undiscovered resources totalling 201 billion cubic feet (5.7 billion m³) of natural gas and 16.6 million barrels (2.64 million m³) of oil. There also may be potential for trapping of natural gas in sandy facies of the Ordovician Shadow Lake Formation over the crest of the Algonquin Arch.

There is potential for discovery of Cambrian gas or oil pools along the pinch-out edge of the Cambrian sandstone in the subsurface or in fault-controlled structures. There may be considerable unrealized potential in fault-related structural traps in the Salina A-1 and A-2 carbonate units in Kent, Elgin and Middlesex counties. There was a significant increase in drilling in the Lower Silurian sandstone play in 2006, but that activity has declined from 2007 onward.

Table 1. Successful oil and gas exploration wells in southern Ontario in 2010 (see Figure 1 for well locations).

Well #	Well Name	Results	Target	TD	Latitude	Longitude	TD Date
1	OGE #4, Brooke 4 - 5 - XIV	OP - ACT	SAL	663.0	42.92329 083	- 81.970648 61	04/05/20 10
2	OGE #5, Sombra 6 - 21 - XIV	GP - ACT	SAL	670.0	42.74404 278	- 82.314548 33	24/08/20 10
3	OGE #3, Plympton 3 - 3 - II	OS - POT	SAL	750.0	42.95211 250	- 82.215510 00	12/02/20 10
4	NRG 10-01 Oxford on the Thames, East Oxford 6 - 20 - VIII	OS - POT	CAM	997.6	43.03751 389	- 80.717819 44	16/12/20 10
5	Clearbeach et al #39, Enniskillen 5 - 14 - III	GS - POT	SAL	626.0	42.78798 167	- 82.136924 44	03/12/20 10

Abbreviations: ACT = active; CAM = Cambrian; GP = gas producer; GS = gas show; OP = oil producer; OS = oil show; POT = potential; SAL = Silurian Salina Group; TD = total depth (in metres).

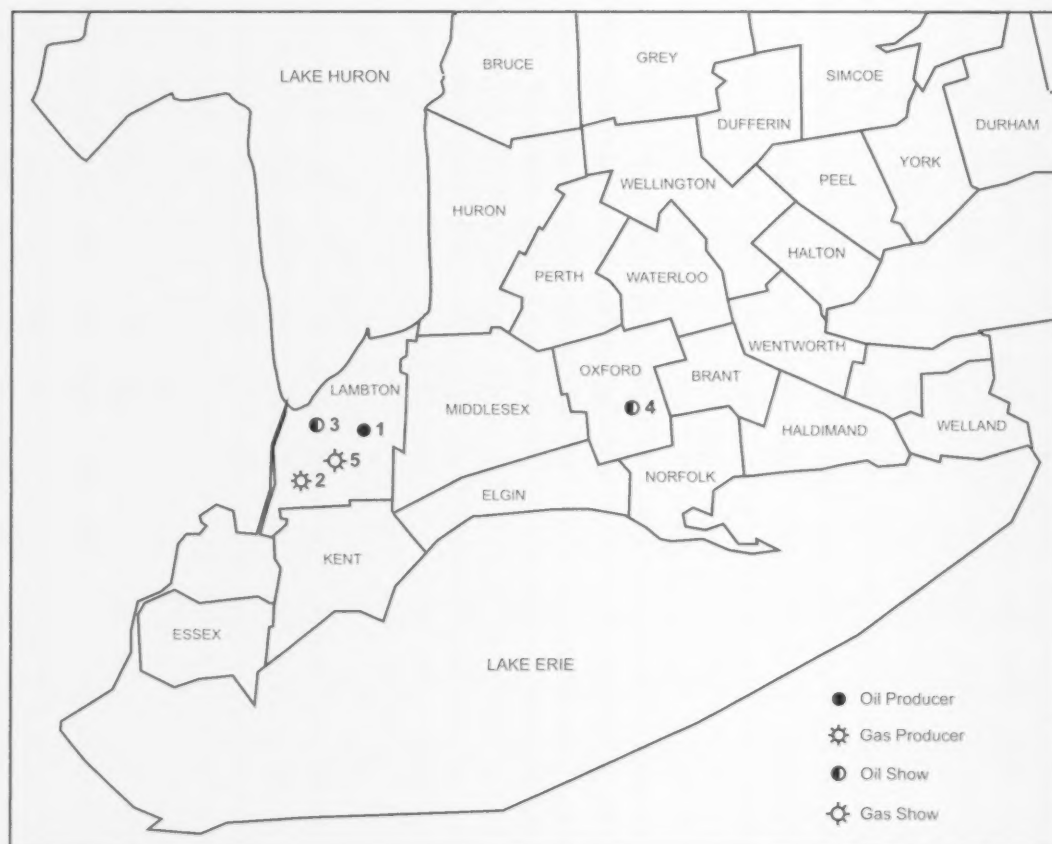


Figure 1. Successful oil and gas exploration wells in southern Ontario in 2010.

Please read all financial notes.

Questions Related to the OGSRL:

Joe Van Overberghe, Managing Director
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Grant Thornton

Financial Statements

Oil, Gas and Salt Resources Trust

December 31, 2010

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Auditors' Report

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To the Trustee of
Oil, Gas and Salt Resources Trust

We have audited the accompanying financial statements of the Oil, Gas and Salt Resources Trust which comprise the balance sheet as at December 31, 2010, and the statements of earnings, retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Trust's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Oil, Gas and Salt Resources Trust as at December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

London, Ontario
May 13, 2011

Chartered accountants
Licensed Public Accountants

Oil, Gas and Salt Resources Trust

Statement of Earnings

Years Ended December 31	2010	2009
Revenue		
Well licence fees	\$ 111,155	\$ 122,260
Sample processing fees	15,889	17,847
Ministry of Natural Resources – Emergency Response Program	-	17,000
Ontario Geological Survey	-	45,000
Programs	59,204	-
Labour and clerical	8,728	6,480
Memberships	41,513	34,559
Lab user fees	1,714	741
Publications and data	24,852	54,654
Interest and foreign exchange	5,543	4,139
	<u>268,598</u>	<u>302,680</u>
Expenses		
Wages and employee benefits	87,484	104,514
Contract and co-op wages	43,659	47,565
Processing supplies	577	2,586
Waste and janitorial	6,672	6,979
Sundry	13,478	11,696
Trust management fee	8,750	8,750
Trust services fee	8,750	8,750
Professional fees	7,800	9,300
Office expenses	6,244	7,408
Postage and telephone	4,578	3,945
Insurance	3,745	3,787
Travel	297	393
Rent	55,178	55,407
Databases	1,427	-
Special projects	5,426	-
Amortization	6,261	4,515
	<u>260,326</u>	<u>275,595</u>
Earnings before allocation	8,272	27,085
Allocation to the Province of Ontario	(8,272)	(27,085)
Net earnings	\$ -	\$ -

See accompanying notes to financial statements.

Oil, Gas and Salt Resources Trust
Statement of Retained Earnings

Years Ended December 31	2010	2009
Retained earnings, beginning of year	\$ -	\$ -
Net earnings (Page 3)	-	-
Retained earnings, end of year	\$ -	\$ -

See accompanying notes to financial statements.

Oil, Gas and Salt Resources Trust

Balance Sheet

As At December 31

2010

2009

Assets

Current Assets

Cash	\$ 38,119	\$ 11,590
Investments held for trading	248,459	217,014
Accounts receivable	109,336	144,935
Inventory of supplies	5,333	3,700
Prepaid expenses	5,421	5,421
	<u>406,668</u>	<u>382,660</u>

Capital Assets (Note 5)

13,195 11,520

\$ 419,863 \$ 394,180

Liabilities

Current Liabilities

Accounts payable and accrued liabilities	\$ 24,868	\$ 9,444
Unearned revenue	12,764	10,777
Payable to the Province of Ontario	382,231	373,959
	<u>419,863</u>	<u>394,180</u>

Equity

Retained Earnings (Page 4)

- -
\$ 419,863 \$ 394,180

On behalf of the Trustee

See accompanying notes to financial statements.

Oil, Gas and Salt Resources Trust

Statement of Cash Flows

Years Ended December 31	2010	2009
Increase (decrease) in cash		
Operating activities		
Cash received from customers	\$ 300,641	\$ 299,814
Cash payments to suppliers for goods and services	(111,271)	(107,146)
Cash payments to employees	(129,003)	(152,760)
Interest received	<u>3,730</u>	<u>4,139</u>
	64,097	44,047
Investing activities		
Purchase of capital assets	(7,936)	(1,791)
Purchase of investments held for trading	(370,119)	(365,000)
Proceeds on the redemption of investments held for trading	<u>340,487</u>	<u>294,794</u>
	(37,568)	(71,997)
Change in cash	26,529	(27,950)
Cash, beginning of year	<u>11,590</u>	<u>39,540</u>
Cash, end of year	\$ <u><u>38,119</u></u>	\$ <u><u>11,590</u></u>

See accompanying notes to financial statements.

Oil, Gas and Salt Resources Trust

Notes to the Financial Statements

December 31, 2010

1. Nature of operations

Pursuant to the Oil, Gas and Salt Resources Act, R.S.O 1990, the Trust was formed by the Ontario Ministry of Natural Resources. A trust agreement, dated February 16, 1998, was signed with the original trustee, the Ontario Oil, Gas and Salt Resources Corporation. The purpose of the Trust is to provide for the funding of research, surveys and laboratory facilities relating to the oil and gas industry. Pursuant to the trust agreement, the net assets of the Trust accrue to the benefit of the Province of Ontario. The monetary value of this entitlement is reflected within current liabilities as "Payable to the Province of Ontario."

2. Summary of significant accounting policies

(a) Revenue recognition

Fees and other revenue received in advance are deferred and recognized as income at the time the related expenditures are incurred. Members' fees as set by the Board of Directors are recognized as revenue on a straight line basis over the term of the membership. Well licensing fees are recognized as revenue on a fiscal year basis. Investment revenue is recognized within the month in which it is earned.

(b) Cash

Cash includes cash on hand, balances with banks, net of outstanding cheques.

(c) Investments held for trading

Financial instruments designated as investments held for trading consist of cashable guaranteed investment certificates with Canadian banks and are carried at market value. The weighted average interest rate of the guaranteed investment certificates is 2.35% (2.16% as at December 31, 2009). Investments held for trading are measured at fair value at each reporting date and any unrealized gains or losses are recognized in net earnings for the period in which they arise.

(d) Inventories

Inventories are valued at the lower of cost and net realizable value. The cost of inventories includes the cost of purchase and other costs incurred in bringing the inventories to their present location and condition. Costs such as storage costs and administrative overheads that do not contribute to bringing the inventories to their present location and condition are specifically excluded from the cost of inventories and are expensed in the period incurred.

(e) Amortization

It is the Trust's policy to provide for amortization of capital assets on the following basis:

Furniture and fixtures	20% declining balance
Computer hardware	3 years, straight-line
Computer software	100%

Oil, Gas and Salt Resources Trust

Notes to the Financial Statements

December 31, 2010

2. Summary of significant accounting policies (continued)

(f) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rate. Revenues and expenses are recorded at average rates of exchange. Translation gains and losses are included in earnings.

(g) Use of estimates

In preparing the Trust's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

3. Financial instruments

(a) Fair value of financial instruments

The Trust has classified their financial instruments as follows:

1. cash as held for trading (measured at fair value through the statement of earnings)
2. receivables as loans and receivables (measured at amortized cost using the effective interest method)
3. investments as held for trading (measured at fair value through the statement of earnings)
4. payables and accruals as other financial liabilities (measured at amortized cost using the effective interest method)

Fair values are based on quoted market values where available from active markets.

(b) Financial risk

The Trust is exposed to financial risk with respect to foreign exchange rates and the degree of volatility of these rates. The Trust does not use derivative instruments to reduce its exposure to foreign currency risk.

(c) Credit risk

The Trust is exposed to credit risk with respect to its accounts receivable. However, this is minimized by the Trust's customer base, which covers different consumer and business sectors. The Trust maintains provisions for potential credit losses, and any such losses to date have been within management's expectations.

Oil, Gas and Salt Resources Trust

Notes to the Financial Statements

December 31, 2010

4. Related party transactions

During the year the Trust participated in the following related party transactions, with its trustee (Note 1):

- (a) Trust service fees were paid in the year totalling \$8,750 (\$8,750 in 2009); and
- (b) Trust management fees were paid in the year totalling \$8,750 (\$8,750 in 2009).

These transactions were in the normal course of operations and are measured at the exchange value as agreed upon by the related parties.

5. Capital assets

	<u>2010</u>		<u>2009</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Furniture and fixtures	\$ 32,534	\$ 29,029	\$ 3,505	\$ 4,382
Computer hardware and software	<u>42,393</u>	<u>32,703</u>	<u>9,690</u>	<u>7,138</u>
	<u>\$ 74,927</u>	<u>\$ 61,732</u>	<u>\$ 13,195</u>	<u>\$ 11,520</u>

6. Capital management

The capital structure of the Trust consists of funds received from members and service activities. The primary objective of the Trust's capital management is to maintain sufficient resources to provide for the funding of research, surveys and laboratory facilities relating to the oil and gas industry. The Trust is meeting its objectives by ensuring funds generated are utilized in accordance with the specific activities it has been given responsibility for. The Trust has no externally imposed capital requirements.



Financial Statements
(Unaudited)

Ontario Oil, Gas and Salt Resources Corporation

December 31, 2010

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Balance Sheet	3



Grant Thornton

Notice To Reader

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To the Shareholder of
Ontario Oil, Gas and Salt Resources Corporation

On the basis of information provided by management, we have compiled the balance sheet of Ontario Oil, Gas and Salt Resources Corporation as at December 31, 2010 and the statement of earnings and retained earnings for the year then ended.

We have not performed an audit or a review engagement in respect of these financial statements and, accordingly, we express no assurance thereon.

Readers are cautioned that these statements may not be appropriate for their purposes.

London, Ontario
March 13, 2011

Grant Thornton LLP

Chartered accountants
Licensed Public Accountants

Ontario Oil, Gas and Salt Resources Corporation

Statement of Earnings and Retained Earnings

Years Ended December 31

2010

2009

Revenue

Trustee management fee	\$ 8,750	\$ 8,750
Trustee service fees	<u>12,016</u>	<u>12,016</u>
	20,766	20,766

Expenses

Management fees – Ontario Petroleum Institute Inc.	8,750	8,750
Insurance – directors and officers	<u>3,266</u>	<u>3,266</u>
Administration	<u>8,750</u>	<u>8,750</u>
	20,766	20,766

Net earnings

\$ <u>-</u>	\$ <u>-</u>
-------------	-------------

Retained earnings, beginning of year

\$ -	\$ -
------	------

Net earnings

<u>-</u>	<u>-</u>
----------	----------

Retained earnings, end of year

\$ <u>-</u>	\$ <u>-</u>
-------------	-------------

Unaudited
Notice To Reader Appended

Ontario Oil, Gas and Salt Resources Corporation

Balance Sheet

As At December 31

2010

2009

Assets

Current Asset

Cash

\$ 1

\$ 1

Shareholder's Equity

Share Capital

Authorized:

1 Common share

Issued:

1 Common share

\$ 1

\$ 1

On behalf of the Board

_____ Director

_____ Director

Unaudited
Notice To Reader Appended